THE FACTORS AFFECTING ON IPO RETURN IN THAI STOCK MARKET

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ABSTRACT

An alternative for a short-term investment, IPO return is one of the most attractive investments in every stock market. In the past Stock Exchange of Thailand, the rate of stock listing or IPO issue is less when compare to the other markets. After the crisis period in 1997, the number of IPO issues is reduced to almost zero for a few years. Then SET has implemented the new regulation and procedure to control all listed and will be listed companies and also pursue them to be corporate governance. Nowadays 2004, the rate of stock listing increase to almost one a week and the number of positive return IPO also increase. This study reported 14% to 24% IPO Returns in Thai stock market in study period. This figure is same with international Stock markets. In addition to the factors affect the initial return of IPOs also disclosed. By using the published data that can be acquired by general investor, we investigate those which have relations to the return of IPOs and develop the initial return prediction model.

This paper focuses on the significant factors of those prior researches and creates some of its own factors, in order to apply them to investigate the relation between selected factors and initial return of IPO by multiple regression method. The report will investigate overall or entire population sector wise. The results of the investigation between relationships presented, and the significant variables at level 95% confidence will be taken to create suitable models for each sector and for the entire market.

The study shown the main specific company factors (Age, Firm size, ROA, Debt ratio, Return on average of 3 years return, PE ratio, Three years PE ratio) and overall market factors (Trend of the SET index, Trend of the SET’s volume). That would influence the initial return of IPO in Thai stock market, further following company specific factors significant to earn initial return of IPO 1) firm size, 2) Three year PE ratio, 3) Debt ratio, and 4) Return on
average of 3 years return. There are a number of company specific factors that were non-significant 1) Age, 2) ROA, and 3) PE ratio. All overall market factors were significant under this study. The trend of the SET index and the trend of the SET’s volume highly influenced to decide initial return of IPO. The study further reveals that the relationship to the initial return of IPO of each sector is different. They depend on the characteristics of each sector.

However, there is no relationship to the initial return of IPO in some sectors. It may have caused from the new classification of sectors, which is applied to this report, is less specific.

Table 1  The summary of the model.

<table>
<thead>
<tr>
<th>No.</th>
<th>Sector</th>
<th>Model</th>
<th>$r^2$</th>
<th>Adjusted $r^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agro &amp; Food industrial</td>
<td>No relationship</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Financials</td>
<td>$y = -7.4279 – 3.2203(Debt ratio) + 0.4776 ln(Asset)$</td>
<td>70.72%</td>
<td>63.40%</td>
</tr>
<tr>
<td>3</td>
<td>Industrials</td>
<td>$y = -2.4792 + 0.1203 \ln(\text{Asset}) + 0.0873(\text{SET})$</td>
<td>97.21%</td>
<td>95.35%</td>
</tr>
<tr>
<td></td>
<td>Industrials</td>
<td>$y = -2.9826 + 0.1453 \ln(\text{Asset}) + 0.3452(\text{Vol})$</td>
<td>96.20%</td>
<td>93.67%</td>
</tr>
<tr>
<td>4</td>
<td>MAI</td>
<td>No relationship</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Property &amp; Construction</td>
<td>$y = 0.1328 + 0.1483(\text{SET})$</td>
<td>27.34%</td>
<td>23.06%</td>
</tr>
<tr>
<td></td>
<td>Property &amp; Construction</td>
<td>$y = 0.1782 + 0.7515(\text{Vol})$</td>
<td>31.20%</td>
<td>27.15%</td>
</tr>
<tr>
<td>6</td>
<td>Services</td>
<td>$y = 0.2107 – 0.09(\text{RO3}) + 0.0006(\text{PE3})$</td>
<td>59.63%</td>
<td>52.90%</td>
</tr>
<tr>
<td>7</td>
<td>Technology</td>
<td>No relationship</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>SET</td>
<td>$y = -7.4279 – 3.2203(\text{Debt ratio}) + 0.4776 \ln(\text{Asset})$</td>
<td>16.05%</td>
<td>15.15%</td>
</tr>
</tbody>
</table>

All coefficient values are significant under 95% confidence level
References


Ravi Lonkani and Michael Firth, The Accuracy of Profit Forecasts Published in the Offerings Prospectuses, Journal of Business Finance.


SETSMART, SET Market Analysis and Reporting Tool, http://www.setsmart.com an on-line system for retrieving and analyzing trading and listed companies information in the SET’s databases.

http://www.set.or.th , the official site of The Stock Exchange of Thailand (SET).

http://www.sec.or.th, the official site of The Securities and Exchange Commission, Thailand (SEC).